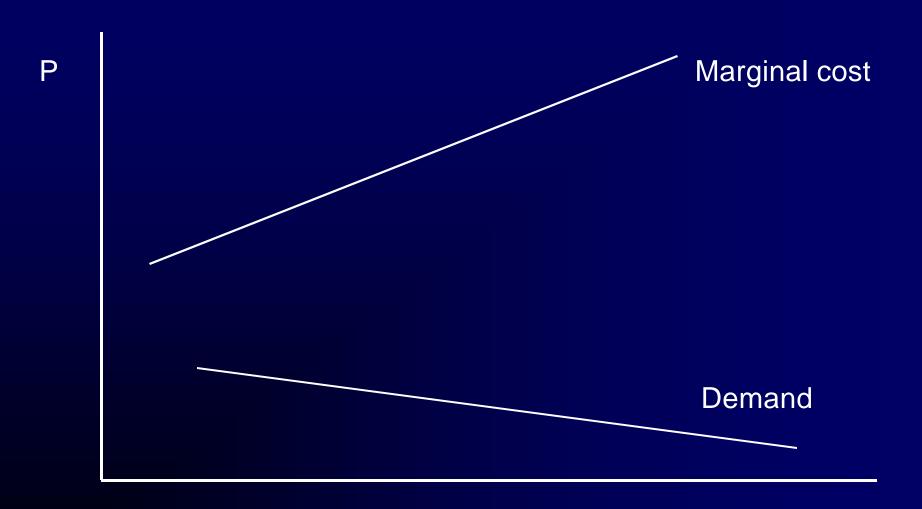
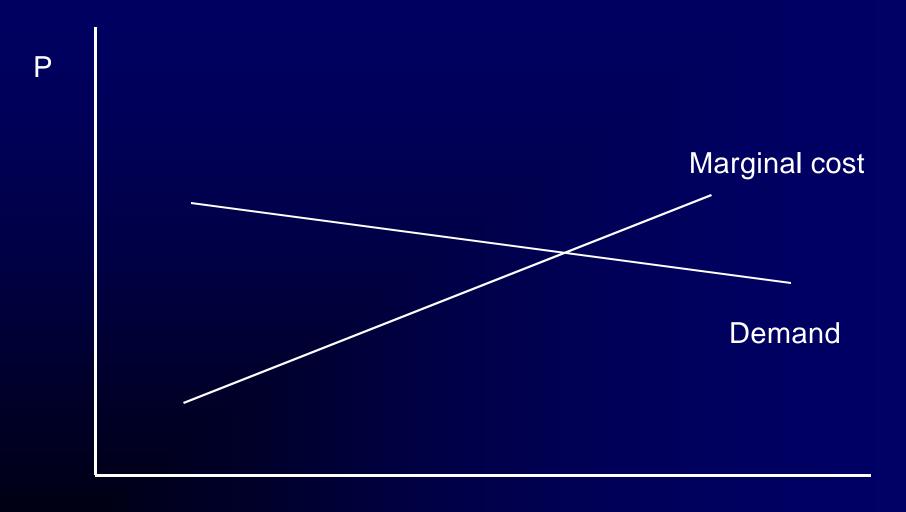
THE MARKET FOR CARBON SEQUESTRATION: HOW REAL, HOW SOON, AND HOW VALUABLE FOR FARMERS?

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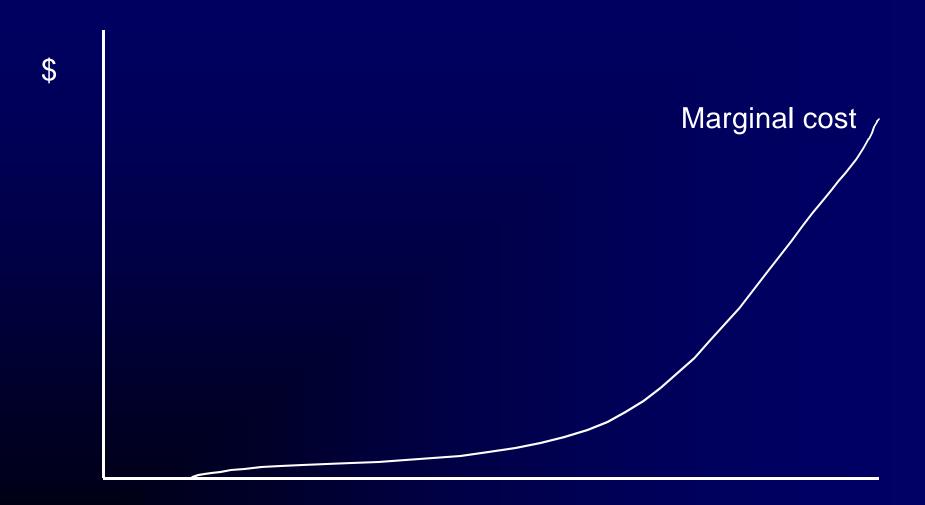
No Viable Market: Willingness to Pay Too Low



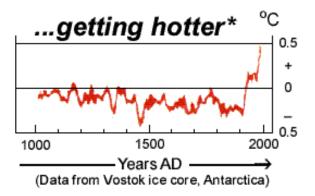
Viable Market: Willingness to Pay Higher, Marginal Cost Lower

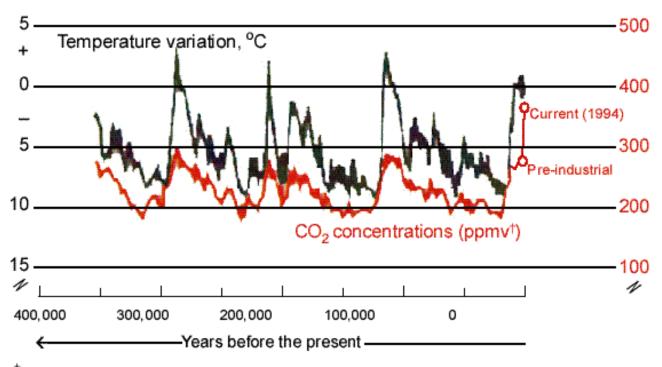


Marginal Cost of Supplying Reductions in Greenhouse Gases



Hot...





[†]Parts per million volume

Sources: CDIAC, Oak Ridge National Laboratory; OECD

^{*}Variation in surface temperature of nothern hemisphere



Four Sources of Demand

- Ratified international treaty to reduce greenhouse gas emissions.
- Carbon friendly farm bill.
- Unilateral initiative by the new administration.
- Production of "atmospheric neutral" products.

Ratified International Treaty

- Given the lack of progress of current negotiations and sentiment in U.S. Senate, outlook is dim.
- But unratified treaty could drive demand today if:
 - Countries were told which practices will eventually count towards meeting reduction goals.

Farm Policy Demand

 Does Congress need "public good" justification for farm income support?

Provision of environmental goods is one justification.

Added Benefit of Farm Policy Demand

 Inducing farmers to sequester carbon would demonstrate the feasibility of using carbon sinks.

 Increase the likelihood that sinks will be eventually counted.

Unilateral Reduction in U.S. Emissions

- Why do it?
 - Put other major emitters on the defensive
 - Break the negotiation log jam'
 - Unilaterally accept carbon sinks as valuable
 - Demonstrate the feasibility of trading schemes

Unilateral Reduction in U.S. Emissions

- Disadvantages
 - Many Americans don't think we need to cut emissions at all.
 - Ill-conceived program could be costly.

Demand for Atmospheric Neutral Products

- Will demand for green products grow?
- Need a "poster child" event to drive demand.
- But even though climate change is geologically rapid, it is media-event slow.

Conclusions

- Outlook for carbon markets uncertain.
- Agriculture has the potential to generate large amounts of carbon credits, but demand is not likely to be large, unless
 - Negotiations result in a list agriculture activities that will "count"
 - Congress needs an environmental farm bill
 - Administration decides to act unilaterally.